B.R. Ambedkar in the time of farmer protests

This year marks the centenary of a landmark article by B.R. Ambedkar. Its central insight deserves attention at a time when thousands of protesting farmers touched the hearts of Mumbaikars with their quiet dignity during the long march this week.

Ambedkar was a young 27-year-old economist when he published his paper on the problem of small holdings in India. He was among the first generation of trained economists in the country. Ambedkar eventually moved away from economics research after another decade, as his legal practice and political career took over his life, but not before he had also dived into one of the most important monetary debates of that era, the optimum exchange rate for the rupee (I had earlier written on Ambedkar as a monetary economist here).

Ambedkar persuasively argued in his 1918 article that the solution to rural stress is rapid industrialization: “In short, strange as it may seem, industrialization of India is the soundest remedy for the agricultural problems of India. The cumulative effects of industrialization, namely a lessening pressure (of surplus labour) and an increasing amount of capital and capital goods will forcibly create the economic necessity of enlarging the holding. Not only this, but industrialization, by destroying the premium on land, will give rise to few occasions for its sub-division and fragmentation. Industrialization is a natural and powerful remedy…”

It is important to remember that Ambedkar wrote these lines at a time when India had suffered famines at least once every decade between 1860 and 1910, which sometimes led to rural revolts against colonial rule. The main argument made in 1918 was repeated in the 1936 manifesto of the Ambedkarite Independent Labour Party. “In the opinion of the party, the principal means of helping the agriculturists and making agriculture more productive consists in the industrialization of the province.”

Indian policy thinking has since then tried to grapple with the problem of industrialization. The central intellectual challenge in the Nehruvian plans was how to push rapid industrialization under three constraints: savings, foreign exchange and food. The savings constraint was sought to be overcome through deficit financing, the foreign exchange constraint with international aid, and the food constraint through institutional changes such as cooperative farming and agricultural extension services. There is little doubt that the Nehruvian plans underplayed the food constraint, as pointed out by the Mumbai economists C.N. Vakil and P.R. Brahmananda in their alternative wage goods model of industrialization.

Later economists also argued how a weak agricultural sector could be a hurdle to industrial growth. There were two issues in this context. First, food shortages would push up inflation, and governments that tried to deal with the political backlash would then be tempted to cut public investment to fund the subsidy bill. Second, rural distress would ensure that the domestic demand for mass-produced industrial goods would be weak. Of course, industrial growth in the 1970s continued to be anaemic despite the emergence of surplus food, which lent credence to the view expressed by economists, such as Jagdish Bhagwati, Padma Desai and T. N. Srinivasan, that the main problem was the lack of industrial competitiveness because of the web of controls that choked the private sector.

Indian governments since the economic reforms of 1991 have struggled to figure out whether the main thrust of policy should be higher productivity or higher support prices. The United Progressive Alliance government tried to engineer a shift in the internal terms of trade to aid the farming sector. The result was an inflation crisis, while wages grew faster than productivity. The present government tried to cap increases in minimum support prices as part of its overall strategy to maintain macroeconomic stability, but the latest Union budget shows it could be changing course given the possibility of a political backlash in rural constituencies.

The experience of the past two decades shows that India faces what the editorial pages of this newspaper have described as an impossible fiscal trinity: It is impossible for an Indian government to simultaneously keep farm prices high, retail food prices low, and overall inflation under control through a tight fiscal policy. It can attain only two of these three policy goals at a given point in time. For example, a sharp hike in minimum support prices will either mean higher consumer price inflation or an increase in the fiscal deficit because of a spurt in the food subsidy bill.

These are policy conundrums that go to the heart of Indian political economy. The structural transformation of the Indian economy has been an issue that some of the best economic thinkers have grappled with, beginning with Ambedkar a hundred years ago. Experience shows that the process is far more difficult than expected, especially given the failure to create jobs in modern industry and services.

The human suffering that was evident on the streets of Mumbai this week cannot be doubted, but it also needs to be more widely understood that the problems of farmer distress also have wider economic consequences. The challenge of sustainable industrial growth is intimately linked to the situation in rural areas, both as a supplier of wage goods as well as a source of demand for industrial goods.

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